

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

July 12, 2002

Laura Chappelle
Chair
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48911

Annette DuPont-Ewing
Chair & Executive Director
Kentucky State Energy Policy
Advisory Board
211 Sower Boulevard, PO Box 615
Frankfort, KY 40602

Dear Mesdames Chappelle and DuPont-Ewing:

Ethan Brown of the National Governors' Association sent me a copy of the NGA Task Force on Electricity Infrastructure's forthcoming report, entitled "Interstate Strategies for Transmission Planning and Expansion," which I read with considerable interest. I would like to offer a few comments in support of your efforts.

Your report, which is two years in the making, clearly reflects considerable hard work that thoughtfully and constructively balances many difficult issues. The report recognizes the fundamentally regional nature of electricity markets, and the need for adequate infrastructure, balanced market rules, and vigilant oversight to make markets work for customers.

Over the last nine months we have held regional infrastructure conferences around the nation. We share your conclusion about the urgent need for regional infrastructure planning. I believe that you are on target in assuming that Multi-State Entities (MSEs) should reflect the boundaries of regional energy markets through Regional Transmission Organizations (RTOs).

RTOs will facilitate transmission infrastructure through price signals, property rights, independent administration, and a planning process that proactively identifies infrastructure needs. The states will continue to address siting issues. The more siting issues can be considered concurrently with the rest of the regional planning process, the more successful the process will be.

State agencies play a key role in the development of healthy, sustainable wholesale markets for electric power. The Commission has held numerous discussions with state energy regulatory agencies, and those discussions will intensify as we move forward with RTO development. On March 15 of this year the Commission issued a "Working Paper on Standardized Transmission Service and Wholesale Electric Market Design," based on

dialogue with state commissions and other stakeholders. We have also held information-gathering panels on seams issues and selection criteria for RTO choices among utilities at the Commission, based in large measure on our discussions with state leaders.

As described in the above-referenced working paper, we envision that each RTO will have an advisory committee of state regulators, and we have strongly urged RTO organizers to reach out to the regulators in their regions for inclusion in the planning process. Transmission planning and expansion, as well as siting decisions, are areas in which MSEs can bring a valuable regional perspective. There may be a number of other regional market issues that the advisory committee could also address, such as resource adequacy, market monitoring, transmission rates, transmission cost allocation, demand response initiatives and implementation, distributed generation issues and related forms of load management, environmental and energy efficiency issues (such as regional coordination of state demand side management approaches), and RTO budget review. I expect the Commission to address some of these roles in our Standard Market Design rulemaking later this month. We look forward to working with states to discuss these roles.

I fully support the concept of a Multi-State Entity. This voluntary process fully retains state authority, and requires each state to consider neighboring states' needs so that regional solutions are developed. A regional process, which considers benefits for an entire market territory, is vastly superior to a process that pits the interests of individual states against each other. In the end, all customers will benefit from healthy competition.

If a voluntary structure does not produce sufficient results in a timely manner, I anticipate that other, perhaps more cumbersome, approaches would be considered, including time-consuming interstate compacts or joint boards. Providing greater authority to an MSE to select transmission routes, for example, would probably involve state legislative action and perhaps Congressional approval. Because of the time and financial constraints involved with legislative solutions, I encourage NGA in promoting a voluntary regional approach to meet our infrastructure needs in a timely manner.

Again, I congratulate you and your task force on a most thoughtful analysis of a critical issue for our nation's energy future.

Best regards,

Pat Wood, III
Chairman

cc: Commissioner Nora M. Brownell
Commissioner Linda Key Breathitt
Commissioner William L. Massey
Ethan Brown, National Governors' Association